

Company Rating: **Hold**

Target price: HK\$6.14

Key data

H-share price (HK\$)	5.85
Upside potential (%)	5.0
52Wk H/L(HK\$)	8.58/5.43
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$m)	2,352
30-day avg daily vol (HK\$m)	14.2
Auditors	Baker Tilly
Major shareholder (%)	
YTO Group	44.52

Source: Company & Bloomberg

Revenue breakdown by product (%)

Agricultural machinery	82.6
Power machinery	11.7
Other machinery	5.0
Financial operations	0.8

*Based on 1HFY12 results

Source: Company

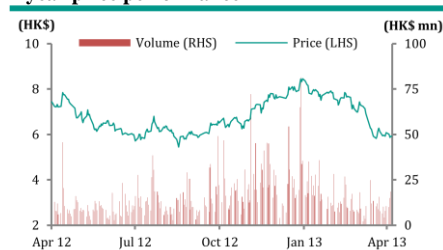
Share performance (%)

	Absolute	Relative ¹
1-mth	-18.07	-18.37
3-mth	-25.19	-21.77
6-mth	-7.14	-11.27

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

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Previous report
Date: April 15, 2013
Rating: Hold
Target price: HK\$6.61

First Tractor (38 HK)

Construction & Farm Machinery Industry

Lack of Short Run Catalyst

EPS dropped 18.8% YoY for 1Q13 because of the unfavorable change of farm machinery purchase subsidy policy. The output and sales of hi-powered tractors were adversely affected in 1Q. We believe this negative factor to drag sales for the rest of this year. The change of product mix negatively affects the GPM and dilutes the positive effect via vertical integration. We lower our GPM forecasts and target price from HK\$6.61 to HK\$6.14. Maintain "Hold" to First Tractor.

Negative impact on change of subsidy policy. Its revenue and net income plunged 11.96% YoY and 18.84% YoY to Rmb3,107mn and Rmb112mn in 1QFY13 respectively due to the change of subsidy policy from granting subsidy to machinery makers to farmers. The time lag between buying machinery to receiving subsidy transfers will increase the upfront cost of buyers and lowers the attractiveness of subsidy program.

Positive effect on vertical integration weakened. Although the upstream vertical integration of the Group during 2012 is expected to bring profitability improvement in 2013, the positive effect is diluted by the negative impact of change of product mix triggered by the cut of maximum subsidy amount for individual hi-powered tractor in 2013. The GPM edged up 0.47ppts from 14.14% in 1QFY12 and increased by 2.12ppts from 12.49% in 4QFY12 to 14.61% in 1QFY13.

Lack of short run catalyst. Looking forward, it takes times for the Group to develop the financial leasing business for the sake of providing short term funding to the buyers and filling the shortfall of the new subsidy program. Yet we see the sales growth will turnaround significantly in short term. Based on the 1Q results, we lower our GPM and earnings forecasts. We downward adjust our target price from HK\$6.61 to HK\$6.14. Maintain "Hold".

Risk factors: Product concentration risk; Development of agricultural machineries subject to policy risk; Raw material inflation risk

Forecast and Valuation

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	11,703	11,318	12,208	14,004	16,275
Chg (%YoY)	14.00	-3.29	7.86	14.71	16.22
Net Income (Rmb mn)	440	349	426	596	771
Chg (%YoY)	-18.97	-20.68	22.19	39.69	29.51
EPS (Rmb)	0.520	0.351	0.429	0.599	0.775
Chg (%YoY)	-18.97	-32.56	22.19	39.69	29.51
PER (x)	-	13.40	10.96	7.85	6.06
PBR (x)	-	1.07	1.02	0.89	0.77
Yield (%)	-	2.13	2.74	3.82	4.95
ROAA (%)	5.52	3.97	4.11	5.07	5.70
ROAE (%)	13.25	8.97	9.55	12.14	13.63
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, ABCI Securities estimates

Financial highlights of the Group

	FY11	1Q12	1H12	1-3Q12	FY12	1Q13	FY12 (%YoY)	1Q13 (%YoY)
Revenue (Rmb mn)	11,703	3,529	6,304	9,104	11,318	3,107	-3.29	-11.96
Agricultural machineries	9,356		5,208	7,546	9,617		2.79	
Power machineries	1,470		735	1,091	1,224		-16.74	
Financial operations	66		49	72	92		39.39	
Others	811		313	395	385		-52.51	
Gross Profit	1,660	499	884	1,267	1,543	454	-7.05	-9.02
Agricultural machineries	1,002		624		1,093		9.04	
Power machineries	272		168		226		-16.65	
Other machineries	162		44		83		-48.89	
Financial operations	224		48		141		-37.07	
GPM (%)	14.18	14.14	14.02	13.92	13.63	14.61	-0.55ppts	0.47ppts
Agricultural machineries	10.71		11.98		11.36		0.65ppts	
Power machineries	18.48		22.85		18.50		0.02ppts	
Other machineries	245.45		90.00		90.00		-155.45ppts	
Financial operations	27.66		15.42		36.66		8.99ppts	
Major cost (Rmb mn)								
Selling cost	(364)	(96)	(190)	(277)	(349)	(92)	-4.12	-4.17
Administrative cost	(713)	(193)	(351)	(548)	(744)	(195)	4.35	1.04
Finance cost	(50)	(23)	(31)	(30)	(57)	(22)	14.00	-4.35
Cost ratio (%)								
Selling cost	3.11	2.72	3.01	3.04	3.08	2.96	-0.03ppts	0.24ppts
Administrative cost	6.09	5.47	5.57	6.02	6.57	6.28	0.48ppts	0.81ppts
Finance cost	0.43	0.65	0.49	0.33	0.50	0.71	0.08ppts	0.06ppts
Net profit (Rmb mn)	440	138	286	326	349	112	-20.68	-18.84
Net profit margin (%)	3.76	3.91	4.54	3.58	3.08	3.60	-0.68ppts	-0.31ppts
Net operating cash flow (Rmb mn)	719	(234)	4	(498)	555	(343)	-22.81	46.58
OCF/Net income (%)	163.41	-169.57	1.40	-152.76	159.03	-306.25	-4.38ppts	-136.68ppts

Source: Company

Major change of our forecast

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	12,169	12,208	0.32	13,948	14,004	0.40	16,198	16,275	0.47
Agricultural machineries	10,432	10,469	0.36	11,950	12,003	0.45	13,859	13,933	0.53
Power machineries	1,285	1,285	0.00	1,515	1,515	0.00	1,818	1,818	0.00
Financial operations	106	107	0.88	120	122	0.97	141	142	0.94
Others	346	347	0.26	363	364	0.26	381	382	0.26
Gross profit (Rmb mn)	1,675	1,658	-1.06	2,013	1,993	-0.97	2,369	2,347	-0.93
GPM (%)	13.77	13.58	-0.19ppts	14.43	14.23	-0.20ppts	14.43	14.42	-0.01ppts
Net income (Rmb mn)	459	426	-7.18	627	596	-4.99	805	771	-4.17
Net margin (%)	3.78	3.49	-0.28ppts	4.49	4.25	-0.24ppts	4.49	4.74	0.25ppts
EPS (Rmb)	0.462	0.429	-7.18	0.630	0.599	-4.99	0.809	0.775	-4.18
BVPS (Rmb)	4.614	4.591	-0.50	5.317	5.272	-0.85	6.172	6.103	-1.12
DPS (Rmb)	0.139	0.129	-7.18	0.189	0.180	-4.99	0.243	0.233	-4.18

Source: ABCI Securities estimates

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	431,521	USD	84.51	10.42	8.86	-6.89	17.58	2.53	2.10	36.22	28.19
KOMATSU LTD	6301 JP	205,297	JPY	2655	14.22	13.93	7.64	2.08	2.34	2.12	18.53	13.15
SANY HEAVY INDUS	600031 CH	93,615	RMB	9.76	10.52	8.87	-18.53	18.53	3.16	2.47	34.53	30.21
ZOONLION HEAVY-H ²	1157 HK	11,540	HKD	8.07	6.81	7.00	-9.20	-2.65	1.23	1.04	19.25	16.06
ZOONLION HEAVY-A ²	000157 CH	59,829	RMB	7.57	7.96	8.17	-9.20	-2.65	1.43	1.21	19.25	16.06
XCMG CONSTRUCT-A	000425 CH	26,341	RMB	10.14	7.58	6.79	-18.41	11.58	1.24	1.08	14.77	15.60
GUANGXI LIUGONG	000528 CH	11,280	RMB	7.96	22.05	14.32	-69.15	54.02	0.95	0.91	3.86	5.42
TEREX CORP	TEX US	25,133	USD	29.16	14.38	10.94	394.63	31.46	1.35	1.20	10.56	13.61
TADANO	6395 JP	10,776	JPY	1058	77.42	26.92	-44.83	187.62	1.63	1.53	2.30	6.70
SHANTUI CONST-A	000680 CH	5,865	RMB	4.09	-10.51	11.30	-192.62	-193.06	1.29	1.21	1.25	5.15
XIAMEN XGMA-A	600815 CH	6,244	RMB	5.17	9.10	11.80	-23.24	-22.89	0.95	0.89	10.45	7.51
LONKING HOLDINGS ²	3339 HK	6,377	HKD	1.49	33.92	8.49	-91.27	299.47	0.82	0.73	2.39	9.09
Sector Weighted Average					12.10	10.27	2.82	15.58	2.33	1.97	27.80	22.22
Agricultural Machinery Makers												
DEERE & CO	DE US	260,187	USD	86.03	10.03	9.53	11.06	5.27	3.47	2.80	38.74	39.34
MAHINDRA & MAHIN	MM IN	78,345	INR	891.85	14.06	11.56	19.25	21.67	2.62	2.24	21.10	20.14
CNH GLOBAL NV	CNH US	82,255	USD	43.72	9.01	8.52	3.68	5.79	1.06	0.94	11.99	12.79
FIRST TRACTOR-H²	38 HK	2,352	HKD	5.85	13.40	10.96	-32.56	22.19	1.07	1.02	8.97	9.55
FIRST TRACTOR-A ²	601038 CH	5,864	RMB	7.84	22.35	18.29	-32.56	22.19	1.79	1.71	8.97	9.55
ESCORTS LTD	ESC IN	997	INR	56.85	6.34	4.65	44.88	36.44	0.37	0.37	6.43	7.21
Sector Weighted Average					10.75	9.82	10.39	8.76	2.81	2.31	29.76	30.12
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	47,255	USD	57.31	9.23	8.83	-13.74	4.49	1.99	1.67	34.20	26.91
ZHENGZHOU COAL-H ²	564 HK	1,570	HKD	6.46	5.29	7.37	14.94	-28.15	0.92	0.86	21.14	12.02
ZHENGZHOU COAL-A ²	601717 CH	14,547	RMB	8.25	8.42	11.71	14.94	-28.15	1.46	1.36	21.14	15.21
TIAN DI-A	600582 CH	13,361	RMB	8.74	9.34	7.67	24.66	21.79	1.84	1.52	22.27	21.80
SANY HEAVY EQUIP ²	631 HK	10,043	HKD	3.27	16.37	14.33	-35.50	14.21	1.47	1.37	9.08	9.78
LINZHOU HEAVY-A	002535 CH	4,298	RMB	6.34	11.85	8.68	54.56	36.45	1.25	1.12	10.86	13.28
SUNWARD INTELL-A	002097 CH	3,352	RMB	6.47	46.21	26.96	-71.03	71.43	1.55	1.48	3.36	5.51
Sector Weighted Average					11.24	10.31	-4.65	6.23	1.76	1.52	25.45	20.93
Machinery Part Makers												
CUMMINS INC	CMI US	165,218	USD	112.16	12.78	10.86	0.29	17.66	2.69	2.26	26.17	22.64
WEICHAI POWER-H	2338 HK	55,580	HKD	28.25	12.82	10.57	-36.79	21.30	1.53	1.35	12.19	13.69
TAIYUAN HEAVY-A	600169 CH	9,097	RMB	2.98	298.00	18.63	-93.79	1500.00	1.31	1.23	0.44	6.58
CHINA YUCHAI	CYD US	4,158	USD	14.37	5.32	4.84	-22.64	10.00	0.57	0.54	10.74	11.07
Sector Weighted Average					23.74	10.99	-12.58	76.00	2.32	1.97	21.58	19.68
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	224,559	SEK	89.40	13.55	9.79	21.25	38.43	2.04	1.83	14.15	15.54
ATLAS COPCO-A	ATCOA SS	249,779	SEK	178.30	15.66	14.65	-0.59	6.93	5.35	4.58	43.17	36.34
HYUNDAI HEAVY	009540 KS	107,313	KRW	202000	8.92	7.71	-28.68	15.69	0.79	0.72	9.98	8.47
SANDVIK AB	SAND SS	133,936	SEK	90.45	12.19	10.77	13.96	13.18	2.87	2.51	25.42	24.20
DOOSAN HEAVY	034020 KS	29,302	KRW	39600	6.42	4.93	222.60	30.28	0.81	0.75	11.95	13.70
MANITOWOC CO	MTW US	19,195	USD	18.62	14.59	10.64	65.71	37.15	3.23	2.66	18.33	24.89
ANHUI HELI CO-A	600761 CH	5,515	RMB	8.52	11.44	9.71	-0.67	17.72	1.45	1.31	12.08	12.48
Sector Weighted Average					13.09	11.08	14.55	20.15	3.06	2.66	24.95	22.95
Weighted Average					13.27	10.52	6.11	21.29	2.63	2.23	26.55	23.56
Median					11.64	10.18	-8.04	17.69	1.45	1.33	12.14	13.45

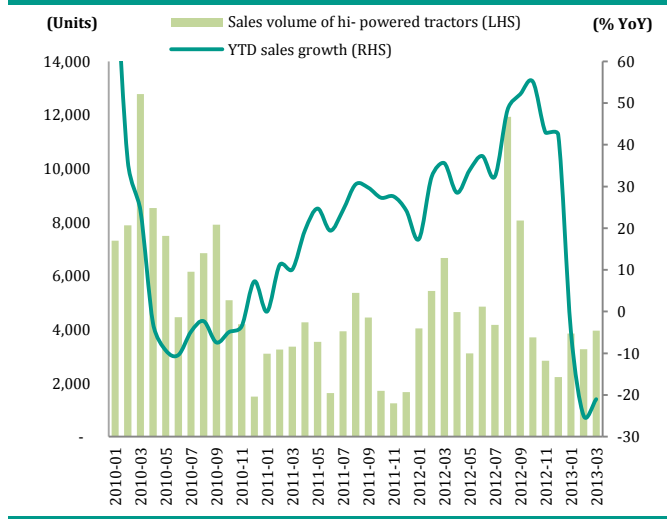
* The data in the table is as at April 26, 2013;

1: The market capital value of the companies are translated into HKD;

2: ABCI Securities estimates;

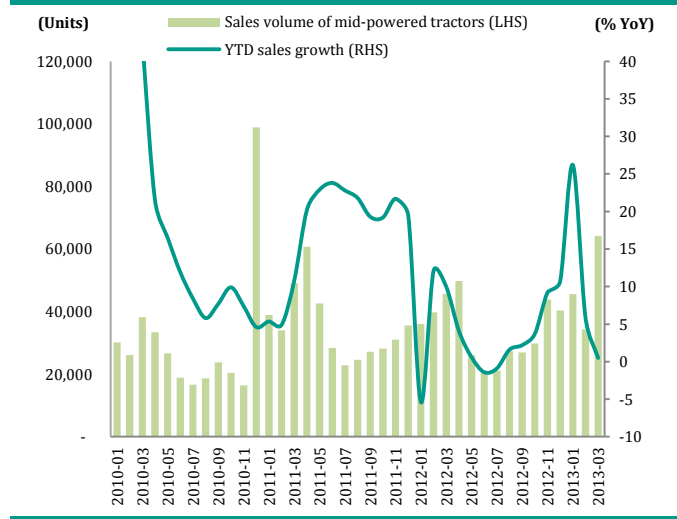
Source: Bloomberg, ABCI Securities estimates

Production volume and YTD growth of hi-powered tractor, 1M2010-3M2013



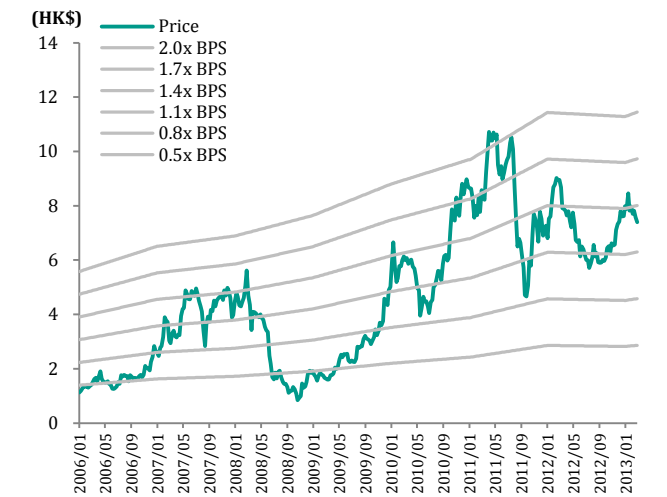
Source: NBS

Production volume and YTD growth of mid-powered tractor, 1M2010-3M2013



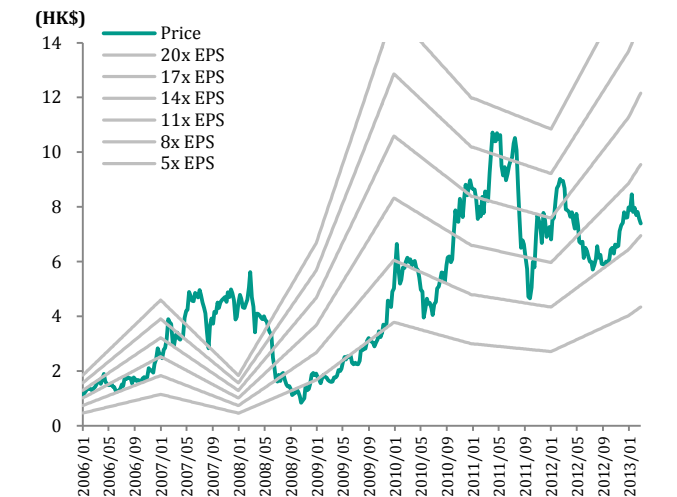
Source: NBS

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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